

# Program Letter

## United States Railroad Retirement Board Office of Programs



**Office of Programs  
Quality Reporting Service Center**

Letter No. 02-06

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**TO: Certification Contact Officials**

**SUBJECT: Payroll Tax Provisions of the Railroad Retirement and Survivors' Improvement Act of 2001**

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**Introduction** The Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA), among other provisions, amended the Internal Revenue Code to:

- reduce tier II railroad retirement tax rates on rail employers and rail labor organizations in 2002 and 2003,
- provide for future modifications in Tier II tax rates based on railroad retirement fund levels; and,
- repeal the railroad retirement supplemental annuity tax paid by rail employers.

This letter explains the RRSIA implications on tier II payroll taxes and the supplemental annuity tax.

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**Effects on  
Tier II Payroll  
Tax**

The tier II tax rate on rail employers and rail labor organizations is reduced from 16.1 percent to 15.6 percent in 2002 and to 14.2 percent in 2003. The tier II earnings base and employee tier II tax rate for 2002 are unchanged.

Beginning with the taxes payable for calendar year 2004, tier II taxes will be based on the ratio of certain asset balances to the sum of benefits and administrative expenses. Depending on this ratio, tier II tax rates for employers will range between 8.2 percent and 22.1 percent, while the tier II tax rates for employees will be between 0 percent and 4.9 percent.

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**Effects on  
Employee  
Representative  
Tier II Payroll  
Tax**

An employee representative is a labor official of a non-covered labor organization who represents employees covered under the Acts administered by the Railroad Retirement Board.

The tier II tax rate for rail employee representatives is 14.75 percent in calendar year 2002 and 14.2 percent in 2003.

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**Effects on  
Supplemental  
Annuity Tax**

The RRSIA repeals section 26 USCS 3221(c) and 26 USCS 3221(d) of the Internal Revenue Code effective January 1, 2002. Those sections covered the supplemental annuity work-hour tax paid by employers, supplemental annuity tax credits and the special supplemental tax for employers with pensions established pursuant to a collective bargaining agreement.

With the repeal of the supplemental annuity tax, employers will not receive supplemental annuity tax credits for months after December 2001.

Employers will receive Form G-245 "Statement of Quarterly Supplemental Annuity Tax Credits" in calendar year 2002 if any corrections for months prior to 2002 are processed. If no corrections are made, no form will be sent. Beginning in 2003 employers will no longer receive Form G-245.

Supplemental railroad retirement annuities provided by section 2(b) the Railroad Retirement Act (RRA) will continue to be due and payable. Supplemental railroad retirement annuities will now be funded through the new National Railroad Retirement Investment Trust.

The RRSIA did not remove the supplemental annuity reduction for an employer pension from section 2(h)(2) of the RRA. Employers will continue to receive Form G-88p "Employer's Supplemental Pension Report" requesting employer pension information. To ensure accurate supplemental annuity payments to your former employees, please respond promptly to the Railroad Retirement Board's Form G-88p requests.

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**Questions**

If you have questions concerning this letter, please contact the Quality Reporting Service Center at (312) 751-4992.